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Understanding the theory and design of organizations.

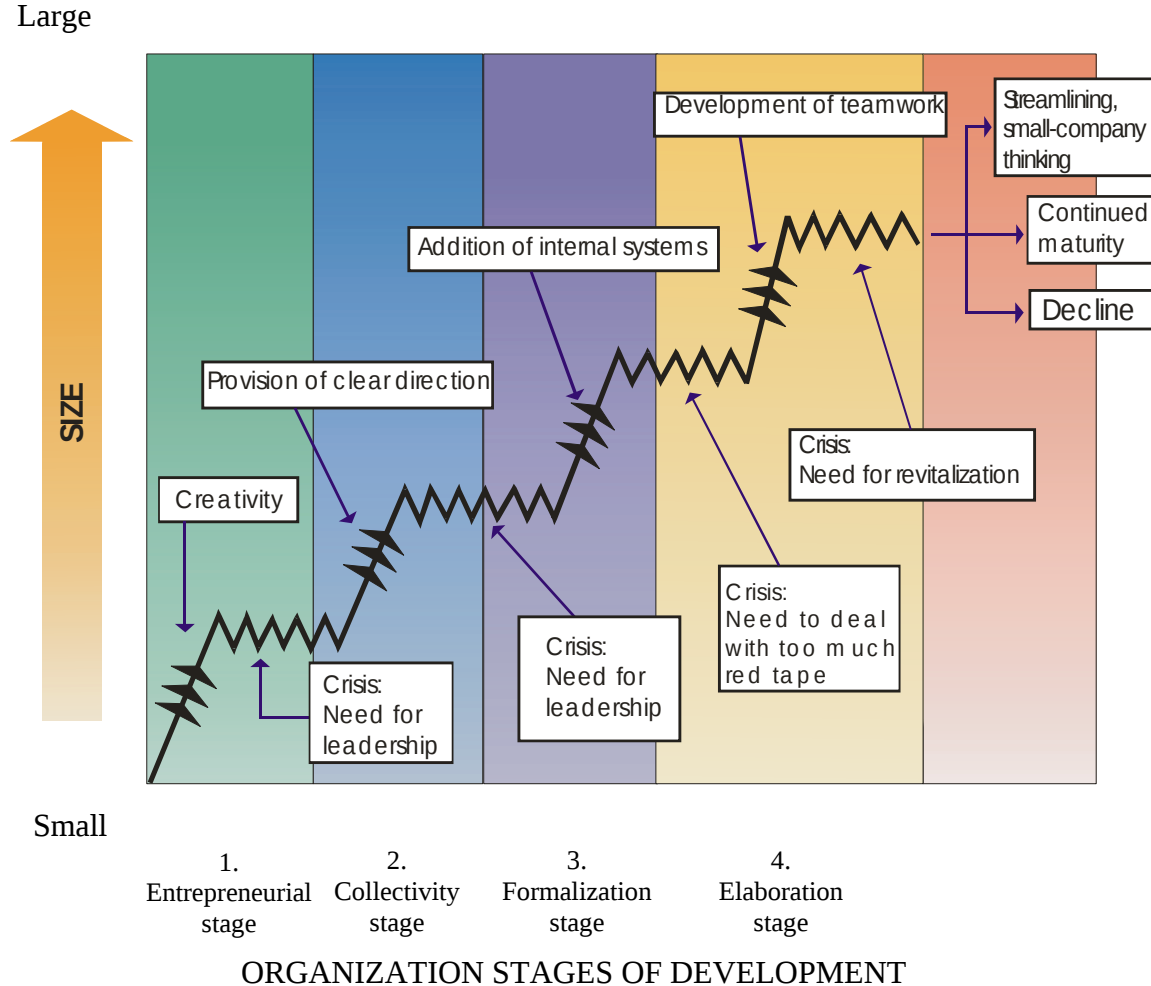


Exhibit 13.3. Organizational life cycle

Source: Adapted from Robert E. Quinn and Kim Cameron, "Organizational life cycles and shifting criteria of effectiveness: Some preliminary evidence", *Management Science* 29 (1983), 33-51; and Larry E. Greiner, "Evolution and revolution as organizations grow", *Harvard business review* 50 (July-August 1972), 37-46

ORGANIZATIONAL LIFE CYCLE

A useful way to think about organizational growth and change is the concept of an organizational life cycle, which suggests that organizations are born, grow older, and eventually die. Organization structure, leadership style, and administrative systems follow a fairly predictable pattern through stages in the life cycles. Stages are sequential and follow a natural progression

Stages of life cycle development

Research on organizational life cycle suggests that four major stages characterize organizational development. These stages are illustrated in Exhibit 13.3, along with the problems associated with transition to each stage. Growth is not easy. Each time an organization enters a new stage in the life cycle, it enters a whole new ball game with a new set of rules for how the organization

functions internally and how it relates to the external environment. For technology companies today, life cycles are getting shorter; to stay competitive, companies like eBay and Google have to successfully progress through stages of the cycle faster

1. *Entrepreneurial stage.* When an organization is born, the emphasis is on creating a product or service and surviving in the marketplace. The founders are entrepreneurs, and they devote their full energies to the technical activities of production and marketing. The organization is informal and nonbureaucratic. The hours of work are long. Control is based on the owners' personal supervision. Growth is from a creative new product or service. For example, Ross Perot started Electronic Data Systems (EDS) in 1962 after failing to convince his superiors at IBM that companies would someday want to take advantage of computer technology without having to understand or manage it themselves. After a few rocky years, demand for the new service EDS offered zoomed, and the company grew rapidly. Apple Computer was in the **entrepreneurial stage** when it was created by Steve Jobs and Stephen Wozniak in Wozniak's parents' garage
Crisis: Need for leadership. As the organization starts to grow, the larger number of employees causes problems. The creative and technically oriented owners are confronted with management issues, but they may prefer to focus their energies on making and selling the product or inventing new products and services. At this time of crisis, entrepreneurs must either adjust the structure of the organization to accommodate continued growth or else bring in strong managers who can do so. When Apple began a period of rapid growth, A.C. Markkula was brought in as a leader because neither Jobs nor Wozniak was qualified or cared to manage the expanding company
2. *Collectivity stage.* If the leadership crisis is resolved, strong leadership is obtained and the organization begins to develop clear goals and direction. Departments are established along with a hierarchy of authority, job assignments, and a beginning division of labor. Web search engine Google has quickly moved from the entrepreneurial to the collectivity stage. Founders Larry Page and Sergey Brin devoted their full energy to making sure Google is the most powerful, fastest, and simplest search engine available, then brought in a skilled manager, former Novell CEO Eric Schmidt, to run the company. Google is currently hiring other experienced executives to manage various functional areas and business units as the organization grows. In the collectivity stage, employees identify with the mission of the organization and spend long hours helping the organization succeed. Members feel part of a collective, and communication and control are mostly informal although a few formal systems begin to appear. Apple Computer was in the **collectivity stage** during the rapid growth years from 1978 to 1981. Employees threw themselves into the business as the major product line was established and more than 2,000 dealers signed on
Crisis: Need for delegation. If the new management has been successful, lower-level employees gradually find themselves restricted by the strong top-down leadership. Lower-level managers begin to acquire confidence in their own functional areas and want more discretion. An autonomy crisis occurs when top managers, who were successful because of their strong leadership and vision, do not want to give up responsibility. Top managers want to make sure that all parts of the organization are coordinated and pulling together. The organization needs to find mechanisms to control and coordinate departments without direct supervision from the top

3. *Formalization stage.* The **formalization stage** involves the installation and use of rules, procedures, and control systems. Communication is less frequent and more formal. Engineers, human resources specialists, and other staff may be added. Top management becomes concerned with issues such as strategy and planning and leaves the operations of the firm to middle management. Product groups or other decentralized units may be formed to improve coordination. Incentive systems based on profits may be implemented to ensure that managers work toward what is best for the overall company. When effective, the new coordination and control systems enable the organization to continue growing by establishing linkage mechanisms between top management and field units. Apple Computer was in the formalization stage in the mid-to late 1980s.
Crisis: Too much red tape. At this point in the organization's development, the proliferation of systems and programs may begin to strangle middle-level executives. The organization seems bureaucratized. Middle management may resent the intrusion of staff. Innovation may be restricted. The organization seems too large and complex to be managed through formal programs. It was at this stage of Apple's growth that Jobs resigned from the company and a new CEO took control to face his own management challenges
4. *Elaboration stage.* The solution to the red tape crisis is a new sense of collaboration and teamwork. Throughout the organization, managers develop skills for confronting problems and working together. Bureaucracy may have reached its limit. Social control and self-discipline reduce the need for additional formal controls. Managers learn to work within the bureaucracy without adding to it. Formal systems may be simplified and replaced by manager teams and task forces. To achieve collaboration, teams are often formed across functions or divisions of the company. The organization may also be split into multiple divisions to maintain a small-company philosophy. Apple Computer is currently in the **elaboration stage** of the life cycle, as are such large companies as EDS, Caterpillar, and Motorola.
Crisis: Need for revitalization. After the organization reaches maturity, it may enter periods of temporary decline. A need for renewal may occur every 10 to 20 years. The organization shifts out of alignment with the environment or perhaps becomes slow moving and over bureaucratized and must go through a stage of streamlining and innovation. Top managers are often replaced during this period. At Apple, the top spot has changed hands a number of times as the company struggled to revitalize. CEOs John Sculley, Michael Spindler, and Gilbert Amelio were each ousted by the board as Apple's problems deepened. Steve Jobs returned in mid-1997 to run the company he had founded nearly 25 years earlier. During those 25 years, Jobs had gained management skills and experience he needed to help Apple through its problems. An older and smarter Jobs quickly reorganized the company, weeded out inefficiencies, and refocused Apple on innovative products for the consumer market, introducing a sleek new iMac in one of the hottest new product launches ever. Even more important Jobs brought the entrepreneurial spirit back to Apple by moving the company into a whole new direction with the iPod music system. The iPod jump-started growth at Apple as the personal computer market continued to decline. Sales and profits are zooming at Apple thanks to the iPod and expanding line of innovative consumer electronics products. All mature organizations have to go through periods of revitalization or they will decline, as shown in the last stage of Exhibit 13.3

Summary

Eighty-four percent of businesses that make it past the first year still fail within 5 years because they can't make the transition from the entrepreneurial stage. The transitions become even more difficult as organizations progress through future stages of the life cycle. Organizations that do not successfully resolve the problems associated with these transitions are restricted in their growth and may even fail. From within an organization, the life cycle crises are very real. For example, Nike suffered in recent years because it seemed to get stuck in a prolonged adolescence and had difficulty resolving the need for discipline and formal control systems

INPUTS AND OUTPUTS OF THE MACROECONOMY

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